

EAST BERWICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

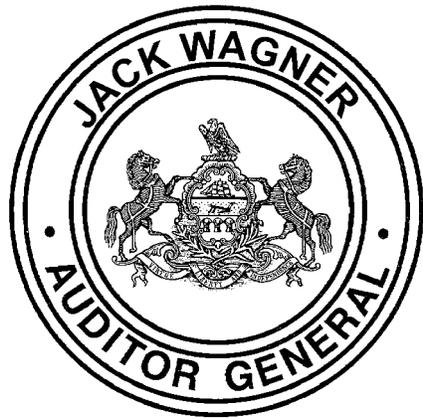
FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

The East Berwick Volunteer Firefighters' Relief Association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The East Berwick Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Salem Township	Luzerne	\$16,333	\$16,368	\$15,989

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The East Berwick Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

East Berwick Hose Company No. 2

Mr. Larry Remphrey Jr., President
EAST BERWICK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the East Berwick Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2005 to December 31, 2007.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Berwick Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the East Berwick Volunteer Firefighters' Relief Association's cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the East Berwick Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the East Berwick Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$38,254 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Inadequate Record-Keeping and Internal Controls

Finding No. 3 – Inadequate Minutes of Meetings

The contents of this report were discussed with the management of the East Berwick Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

November 14, 2008

JACK WAGNER
Auditor General

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The East Berwick Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Misappropriation of Monetary Assets

By receiving restitution on behalf of the defendant, in the amount of \$5,022, for the misappropriation of funds that occurred during the prior and current audit periods.

- Failure to Obtain a Pennsylvania Sales Tax Exemption Number

By obtaining a state sales tax exemption number and furnishing this number to all vendors from which the relief association purchases equipment.

- Unauthorized Expenditure

By receiving reimbursement from the affiliated fire company, in the amount of \$250, for the unauthorized expenditure made in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The East Berwick Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

While the relief association partially complied with the prior audit recommendation by obtaining reimbursement of \$316 from the affiliated fire company for the undocumented expenditure that was made in the prior audit period, they again neglected to maintain adequate supporting documentation for all current period expenditures as discussed in Finding No. 1 of this report.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance with Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in the prior audit report, the relief association again neglected to maintain adequate supporting documentation for all association expenditures. Specifically, during the current audit period, the relief association disbursed funds for the following expenditures for which the association was unable to provide sufficient documentation:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/25/05	564	Equipment vendor	\$ 333
08/15/05	1006	Payment to individual	210
10/31/05	1062	Payment to individual	19
11/01/05	1010	Payment to individual	190
11/22/05	1061	Communications vendor	127
01/31/06	1039	Payment to individual	500
07/16/07	1059	Payment to individual	500
11/13/07	1061	Payment to individual	223
Total			<u>\$ 2,102</u>

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices and training certificates, if available, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition in the prior audit period, relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Lack of supporting documentation, such as invoices, detailed minutes of meetings, and training certificates, if available, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices and training certificates, to determine the validity of the expenditures or that the relief association be reimbursed \$2,102 for the undocumented expenditures. In addition, we again recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Record-Keeping and Internal Controls

Condition: The relief association failed to establish adequate internal controls and to maintain complete financial records. The following internal control weaknesses and record-keeping deficiencies existed during the audit period:

- Association records were not adequately safeguarded, as all checks could not be accounted for.
- Original invoices were not required prior to the payment of purchases.
- Detailed minutes of meetings were not maintained.
- Financial related activities were not presented, discussed, and approved at relief association meetings.
- Bank reconciliations were not performed.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Annual financial statements for all association accounts were not prepared.
- Documentation to support various expenditures was not available for examination.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

.... must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Furthermore, prudent business practice dictates that:

- Association records be adequately safeguarded.
- Original invoices should be required prior to payment of purchases.
- Detailed meeting minutes be maintained to accurately document relief association business.
- All expenditures should be presented to the association membership for discussion and approval.
- Monthly bank reconciliations should be performed.
- Ledgers be maintained to record all transactions of the relief association accounts.
- Annual financial statements be prepared for all association accounts.
- Supporting documentation of all relief association business be maintained.

Cause: The relief association failed to establish adequate internal controls to ensure the safeguarding of records, the approval and verification of the propriety of expenditures, and the proper recording and documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective record-keeping and internal controls.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to establish and maintain adequate internal controls and financial records prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls and financial records places the relief association funds at greater risk for misappropriation.

Recommendation: We recommend the relief association officials adopt internal control procedures and establish a record-keeping system that will require the following:

- The safeguarding of relief association records.
- Payment of expenditures from original invoices only.
- Maintenance of detailed meeting minutes.
- Presentation, discussion, and approval of financial transactions at relief association meetings.
- Reconciliation of monthly bank statements.
- Preparation and maintenance of ledgers and annual financial statements for all association accounts.
- Maintenance of supporting documentation for all relief association transactions.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

Act 84 at 53 P.S. § 8502(1) states, in part, that:

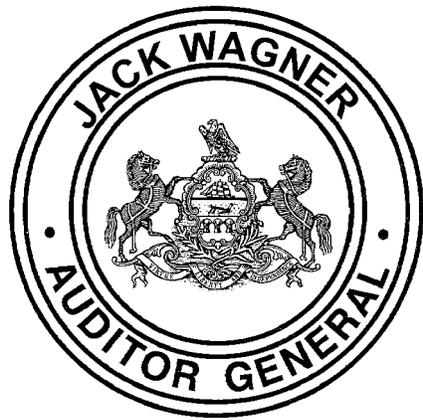
A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 205
Death benefits	1,000
Total Benefit Services	\$ 1,205
Fire Services:	
Equipment purchased	\$ 15,095
Equipment maintenance	533
Training expenses	1,627
Total Fire Services	\$ 17,255
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,983
Total Administrative Services	\$ 2,983
Total Investments Purchased	\$ 5,000
Other Expenditures:	
Principal payments on loan	\$ 6,025
Misappropriated funds *	415
Undocumented expenditures	2,102
Total Other Expenditures	\$ 8,542

* As noted in the prior audit report, there was a misappropriation of funds during 2004 and 2005 for which the relief association received full reimbursement on March 24, 2005.



EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

East Berwick Volunteer Firefighters' Relief Association Officers:

Mr. Larry Remphrey Jr., President

Mr. Shawn Donnelly, Secretary

Ms. Rebecca Worthington, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Patricia Owens, Secretary
Salem Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.